Regional Company Focus

Hyundai Motor

Bloomberg: 005380 KS EQUITY | Reuters: 005380.KS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 October 2015

BUY

Last Traded Price: KRW162,000 (**KOSPI** : 2,023)
Price Target: KRW230,000 (42% upside) (Prev KRW200,000)
Potential Catalyst: Earnings recovery, and rising dividend payouts
Where we differ: Our FY16F OP is 5% higher as we are optimistic on HMC's domestic business.

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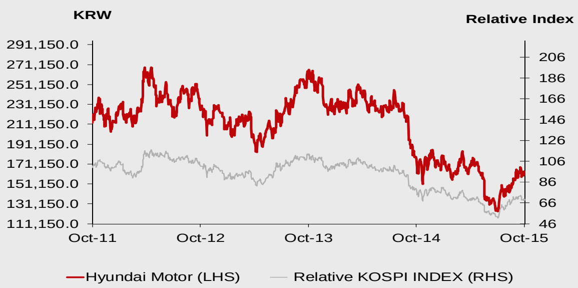
Price Relative



Forecasts and Valuation

FY Dec (KRW bn)	2014A	2015F	2016F	2017F
Turnover	89,256	92,877	97,982	100,569
EBITDA	10,100	9,427	9,993	10,382
Pre-tax Profit	9,951	8,630	9,895	10,728
Net Profit	7,347	6,524	7,409	8,033
EPS (KRW)	26,795	23,802	27,036	29,313
EPS Gth (%)	(14.9)	(11.2)	13.6	8.4
Diluted EPS (KRW)	26,795	23,802	27,036	29,313
DPS (KRW)	3,000	3,450	3,800	4,200
BV Per Share (KRW)	219,353	237,577	247,388	276,697
PE (X)	6.0	6.8	6.0	5.5
P/Cash Flow (X)	21.8	6.8	5.0	4.6
P/Free CF (X)	8.4	3.2	3.6	3.5
EV/EBITDA (X)	8.3	10.2	9.6	9.2
Net Div Yield (%)	1.9	2.1	2.3	2.6
P/Book Value (X)	0.7	0.7	0.7	0.6
Net Debt/Equity (X)	0.7	0.8	0.8	0.7
ROAE (%)	12.3	10.0	10.7	10.7
Earnings Rev (%):		(3.2)	3.0	5.2
Consensus EPS (KRW)		24,754	26,015	27,273
Other Broker Recs:		B: 37	S: 1	H: 8

ICB Industry: Consumer Goods
ICB Sector: Automobiles & Parts
Principal Business: Hyundai Motor Company (HMC) is South Korea's largest and the world's fifth largest carmaker (including deliveries from its subsidiary Kia Motors), in terms of units sold per year. It has a strong global foothold in the small- and mid-sized car segments.

Source of all data: Company, DBSV, Thomson Reuters, HKEX

On the road to recovery

- 3Q15 OP was slightly lower than expectations
- Material earnings recovery in the next 12 months
- Maintain BUY with TP raised to KRW230,000

3Q15 OP was mildly lower than consensus estimates, which had been revised up over the past two months. Hyundai Motor Company (HMC) registered an OP of KRW1,504bn (-8.8% y-o-y, -14.1% q-o-q). The combined impacts of extremely volatile emerging market currencies, lower utilisation rates, higher incentive spending, increased provision expense, and deteriorating performance from its financing business (accounting for c.15% of consolidated OP) more than offset the benefits of the KRW's weakness against US$, new model launches, and a stronger performance from its (cash-cow) domestic market. Nonetheless, it is still positive that the degree of y-o-y decline in OP has noticeably reduced this time, compared to the previous two quarters. The 3Q15 results reaffirm our previous view that its momentum will recover from 4Q15 onwards (more details on page 3-4).

Better earnings ahead. After six consecutive quarters of y-o-y decline, we expect HMC's OP to resume growth from 4Q15. Our view is premised on the following: (i) HMC will start to see the full impact of new models from 4Q15 onwards (thanks to its success in clearing the inventory of old models over 2Q-3Q15); (ii) outlook for a weaker KRW against the US$; and (iii) low-base effects (compared to the past four quarters, HMC is better prepared to operationally hedge the negative impact of extremely volatile emerging market currencies). Meanwhile, we expect non-OP to resume growth in a y-o-y basis as equity income, which accounted for 94% of HMC's non-OP profit in 9M15, is estimated to grow by 3% y-o-y to KRW536bn in 4Q15 (anticipating Kia Motor's major turnaround).

Target price raised for the 1st time in two years. We raise our FY16F/17F net earnings forecasts by 3%/5% to KRW7,409bn/KRW8,033bn, after adjusting for an improving business landscape comprising a weaker-than-expected KRW against the US$, improving sales from the domestic market (on the back of the government's temporary cut in auto consumption tax and Volkswagen's scandal), and faster-than-expected turnaround of its China JV's operations. We also rolled forward our valuation base to FY16F. This lifted our TP to KRW230,000 from KRW200,000. Maintain BUY on expectations of a material earnings recovery in the next 12 months and undemanding valuations.

At A Glance

Issued Capital (m shrs)	220
Mkt. Cap (KRWbn/US$m)	35,685 / 31,369
Major Shareholders	
Hyundai Mobis (%)	20.8
National Pension (%)	6.0
Mirae Asset Management (%)	5.9
Free Float (%)	67.3
3m Avg. Daily Val. (US$m)	103.2

INVESTMENT THESIS

Profile	Rationale
Hyundai Motor Company (HMC) is South Korea's largest and the world's fifth largest carmaker (including deliveries from its subsidiary Kia Motors), in terms of units sold per year. It has a strong global foothold in the small- and mid-sized car segments, and is making a big swing to upscale auto markets. The brand value of HMC, which has been included in Interbrand's Best 100 Global Brands for 10 consecutive years, surpassed the $10 billion mark for the first time last year, its highest record so far. Over the last decade, HMC has been the one of the fastest growing automotive company in terms of both volume and brand value.	HMC's earnings momentum to recover from 4Q15 onward, premised on the following: HMC will start to see the full impact of new models from 4Q15 onwards (thanks to its success in clearing the inventory of old models over 2Q-3Q15); Outlook for a weaker KRW against the greenback; and Low-base effects (e.g. HMC is better prepared to operationally hedge the negative impact of extremely volatile emerging market currencies). Undemanding valuation. The stock is still grossly undervalued at 6.8x/6.0x FY15/16F PE, which also implies 0.7x P/BV (despite relatively high 11%ROE).

Valuation	Risks
We raise our FY16F/17F net earnings forecasts by 3%/5% to KRW7,409bn/ KRW8,033bn, after adjusting for an improving business landscape comprising a weaker-than-expected KRW against the US$, improving sales from the domestic market (on the back of the government's temporary cut in auto consumption tax and Volkswagen's scandal), and faster-than-expected turnaround of its China JV's operations. We also rolled forward our valuation base to FY16F. This lifted our TP to KRW230,000 from KRW200,000. Maintain BUY on expectations of a material earnings recovery in the next 12 months and undemanding valuations. Our target price P/E multiple remains at 8.5x, implying a 15% discount to KOSPI. The discount level is in line with the historical average. The stock is currently trading at FY15F P/BV of 0.6x, which suggests a limited downside. We believe there is good potential for HMC's valuations to go back up to the historical average levels if it will resume y-o-y operating profit growth, which we expect to happen from 4Q15 onwards. In addition, HMC has just stepped up efforts to placate investors with its first interim dividend (KRW1,000 vs. the market's earlier expectations of KRW500-1,000), which may help to mitigate investor concerns on the company's corporate governance issues. This may consequently help to re-rate HMC's trading multiples.	Forex risks For HMC, the major factor having strong and direct impact on profitability is the exchange rate. The extreme volatilities of Russian Ruble, Brazilian Real, and Turkey Lira, remain as key threats to HMC's emerging markets business. For every KRW10 change in KRW/Euro rate, there would be a 0.4% impact on operating profit.

Source: DBS Vickers

1. HMC: 3Q15 Results Summary

FY DEC (KRW bn)	3Q15	3Q14	2Q15	*% Chg y-o-y*	*% Chg q-o-q*
P&L Items					
Turnover	23,430	21,280	22,822	*10.1*	*2.7*
Gross Profit	4,565	4,520	4,642	*1.0*	*(1.7)*
Opg Profit	1,504	1,649	1,751	*(8.8)*	*(14.1)*
EBITDA	2,203	2,274	2,428	*(3.1)*	*(9.3)*
Pretax Profit	1,705	2,202	2,370	*(22.5)*	*(28.0)*
Net Profit (incl. Minority)	1,206	1,615	1,790	*(25.3)*	*(32.6)*
Net Profit (ex. Minority)	1,174	1,516	1,703	*(22.5)*	*(31.0)*
Other data					
Gross Margin (%)	19.5	21.2	20.3		
Opg Margin (%)	6.4	7.7	7.7		
Net Margin (%)	5.0	7.1	7.5		

Source: Company

3Q15 results review.

Revenue. For its auto division, revenue grew 6.7% y-o-y to KRW18.3tn (+2.6% q-o-q). Despite its active new model launches, total shipments (ex-China) remained relatively flat at 900K cars (+4.3% y-o-y). The company's shipment in the period was adversely impacted by the following:

(i) Its global inventory of old models had remained high at the beginning of 3Q15, which prevented the firm from producing and distributing new models throughout the quarter;

(ii) Intentional cut in supply in some emerging markets as HMC tried to reduce losses arising from extremely weak currencies in the these countries;

(iii) Temporary loss of overseas sales following its more active new car launches (i.e. cleared inventory of old models, and built up inventory of new models); and

(iv) The market's weaker-than-usual reception for its few fully redesigned sedans (e.g. 'Sonata').

HMC's blended ASP for its auto division remained stagnant at KRW20.3m (up 2.2% y-o-y). This means the KRW's depreciation against the US$, as well as HMC's active new model launches, and product mix upgrade (small car [i.e. cars under compact category and below] sales volume as a % of its total global sales volume fell 6.6ppts y-o-y to 52.7%) could mostly be offset by the following:

(i) Extremely volatile emerging market currencies. On average, in 3Q15, the greenback (up 13.9% y-o-y) appreciated against the KRW while a weaker Euro (down 4.5%) was a concern. Equally important, HMC's two main emerging markets - namely Russia (Ruble fell 34.4% vs. KRW), and Brazil (Real fell 26.6%) - saw their currencies weaken substantially against the KRW; and

(ii) Marginal ASP hikes on its new launches. Intensifying competition in the global auto market makes it tougher for HMC and other Korean car manufacturers to raise ASPs, even for new launches.

Operating profit. Consolidated operating profit fell 8.8% y-o-y to KRW1,504bn (-14.1% q-o-q), which was c.5% lower than consensus estimates. We think the difference came mainly from weaker-than-expected performance of its Financing Division (accounting for c.15% of consolidated operating profit). We believe the financing operation's poor performance was caused by (i) intensifying competition in the domestic auto financing and credit card segments, (ii) a jump in financing discounts (in a way to support the Hyundai Motor Group's auto sales volume), (iii) falling used-car values for HMC-made cars in the US, which raises a cost burden to Hyundai Capital America (80% owned by HMC) and (iv) an increase in allowance for bad debt at Hyundai Capital America.

Besides the deteriorating performance of its financing operations, the combined impacts of extremely volatile emerging market currencies, lower utilisation rates (i.e. smaller economies of scale from manufacturing activities), higher incentive spending, and increased provision expense more than offset the benefits of the KRW's weakness against US$, new model launches, and a stronger performance from its (cash-cow) domestic market.

Specifically, we estimate that every KRW10 change in the KRW/US$ rate would swing operating profit by 1.4% (0.5% for 1% change in the KRW/EUR). In addition, HMC should have generated cost savings in the manufacturing side (i.e. new model effects) as it has successfully commercialised 'Tucson' SUV, one of its high volume sellers, in the US, EU, and many emerging market countries during 3Q15.

Despite the positives above, the extremely volatile emerging market currencies inflicted a big impact on operating profit, taking a toll not only on the parent unit's operations, but on the cost side of HMC's overseas plants as well.

Furthermore, HMC finally made good progress in clearing the inventory of old models. However, this came at the expense of the company's higher incentive spending and special discounts, which also took a big bite on HMC's operating profit. In fact, rising incentive spending continues to dampen the company's operating performance.

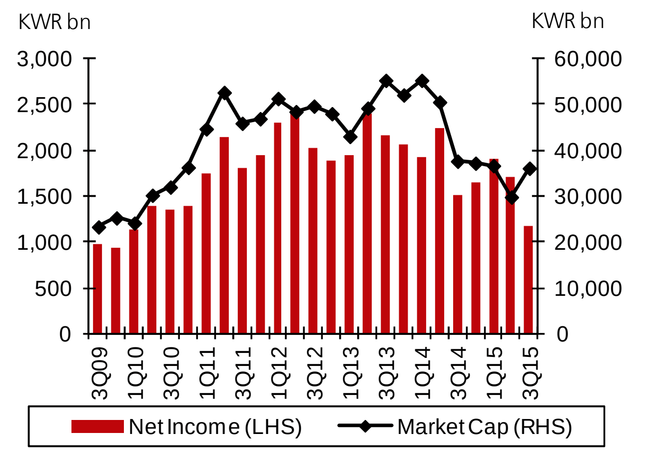
We look at the world's most competitive auto market – the US – to gauge where the company stands in terms of incentive spending. In 3Q15, owing to the combined effects of intensifying competition in the market place and its ageing compact sedan line-ups, HMC's incentive spending in the US market jumped 56% y-o-y to US$2,579 per car in 3Q15 (+9.5% q-o-q).

Lastly, HMC's provisioning expense jumped 23% y-o-y to KRW416bn. Since HMC's provisioning expenses are budgeted in tandem with the currency rates as at the end dates for each quarter, the sudden depreciation of the local currency against the greenback at end-September should have caused the company to book a larger portion of provisioning expense (included in SG&A) for the period.

Non-operating profit. As widely expected, a sharply lower equity income contribution from its China business and (non-cash) currency translation losses led to a sharp decline in non-operating profit (-64% y-o-y to KRW201bn). Of note, (net) income from JVs and associates generally account for 90% of HMC's non-operating profit. And Kia (35.6% owned by HMC and its related) and Beijing HMC (a 50-50 JV between Beijing Motors and HMC) generally account for 75% of the (net) income from JVs and associates.

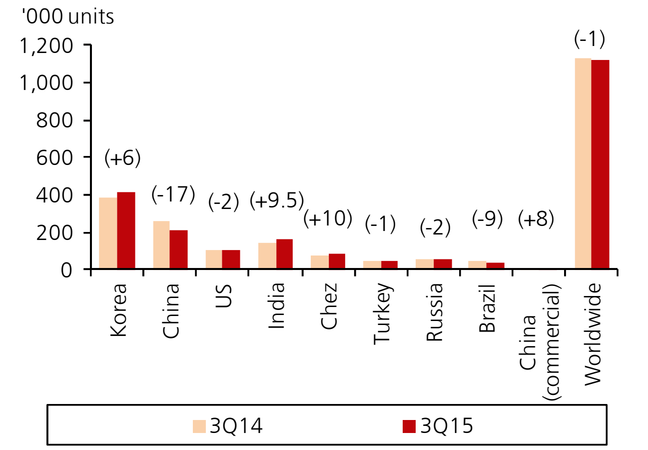
Particularly, the slowing sales performance from China was the main reason for the drop in non-operating profit this time around. In response to the combined effect of the slowing car demand in China and rapid emergence of local Chinese car makers, Beijing HMC's sales volume dropped 17% y-o-y to 214K units in 3Q15. The JV's net profit margin is estimated to drop to 2.8% from 9.1% a year ago, mainly due to its lower utilisation rates (smaller economies of scale from manufacturing activities) and higher sales promotion costs.

2. HMC: Market cap vs. earnings



Source: Company, Bloomberg Finance L.P.

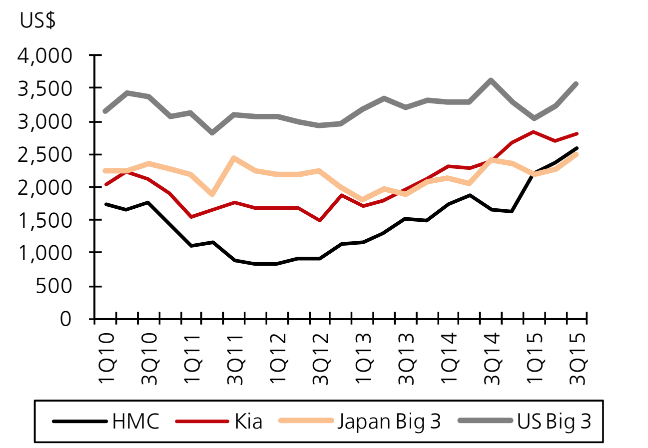
3. HMC: Global Shipments by production sites



Source: Company

Note: ( ) indicate y-o-y growth rates

4. US: Incentive spending by manufacturer



Source: Company, US Automotive News

Momentum to recover from 4Q15.

After seven consecutive quarters of decline, we expect 4Q15 net profit to jump 5% y-o-y to KRW1,738bn, led by the following: (i) a weaker KRW against the US$; (ii) savings from new launches will be in full gear; and (iii) smaller losses from Russia and Brazil; (iv) strong sales performance from the domestic market; and (v) a jump in (net) income from JVs and associates.

A weaker KRW against the US$. The weakening KRW has been a strong driver of HMC's earnings over the years, a major catalyst for auto stocks in South Korea. Our house view is for the KRW to depreciate against the greenback by 11% and 9% y-o-y to KRW1,204:US$1 and KRW1,245:US$1 in 4Q15 and 2016 respectively.

According to our house view, as domestic demand is already recovering and exports are the main drag to growth, the Bank of Korea is expected to tolerate more weakness in the KRW going forward to support the economy. Indeed, the fall in the domestic interest rates to record lows has encouraged capital outflows and put some depreciation pressure on the KRW, because local investors have started to actively pursue higher-yielding foreign assets. A rise in US interest rates, a globally strong US$ and broad-based weakness in emerging market currencies would mean more depreciation pressures on the KRW going forward.

The full impact of new models. HMC will start to see the full impact of new models from 4Q15 onwards. The main reason why we believe the new model impact will be felt more strongly this time compared to the previous quarters is that HMC has finally cleared the inventory of its old models. Hence, its production of new models will pick up, and pose a positive influence on its overall utilisation rates.

Moreover, they should generate cost savings on the manufacturing side, although the savings will not be as large as in 2010-11. In those two years, one of the key earnings drivers for Korean automakers – relative to global peers - was significant cost savings arising from the integration of manufacturing platforms for new designs and models.

In addition, HMC's incentive spending will likely moderate from 4Q15 onwards, partly because a large share of its incentive spending in the past few quarters was for its ageing 'Avante' model (compact sedan, traditionally the company's best-selling product). HMC will launch a fully redesigned version of this model in 4Q15. And, this will likely be a big contributor to HMC's operating profit from 4Q15 onwards.

Smaller losses from Russia and Brazil. We note that HMC has introduced several measures to curb losses from Russia. In response to the increasingly volatile Ruble, management has increased selling prices in Russia by c.5-11% over the past nine months and diverted a share of vehicles it usually exports to Russia from plants in South Korea and the Czech Republic, to other markets. But these attempts could not fully offset the impact of the weak Ruble.

HMC has raised selling prices in Russia by up to 11% within the last nine months. Notably, its main competitors have increased their selling prices by c.20% in the same period. Hence, there is room for HMC to raise ASP in Russia to mitigate losses. In addition, the group has diverted a share of vehicles it usually exports to Russia from plants in South Korea and Slovakia, to other markets – although a time-consuming process. On a positive note, it's already been three quarters since the company looked for new markets to absorb the lost sales from Russia. This suggests the company would be operationally better equipped to deal with losses arising from the Russian auto market by 4Q15. Meanwhile , HMC's operations in Brazil is expected to pan out like the Russian operation.

Strong sales performance from the domestic market. The temporary consumption tax cut by 30% (i.e. excise taxes levied on cars), which came into effect on Aug 27 (will be applicable until year-end), has encouraged consumers to purchase more vehicles in September. This, coupled with a drop in market share of EU-made imported cars, led HMC's sales volume to surge in the domestic market (+8.3% y-o-y to 48K units in September).

Specifically, EU's adoption of Euro 6 also played a role in driving down the sales volume of imported cars. Of note, EU car manufacturers such as BMW, Audi and Volkswagen had been increasingly cutting prices of the Euro 5 cars, the leftover inventory, which can no longer be sold in their home markets as Euro 6 become effective (starting from September 2015). And Korea had been one of the main destinations for the diesel vehicles that did not meet Euro 6 criteria. Nonetheless, the inventories of Euro 5 cars were mostly depleted by the beginning of 3Q15. The market share of the imported cars fell from 18.1% in June to 15.0% in August. In addition, Volkswagen's scandal and recalls would have drawn some negative impact on the sales of imported cars.

While we think HMC's 4Q15 domestic sales should once again be boosted by the government's temporary cut in auto consumption tax, its sales prospects for 1H16 will remain bright, on the back of a meaningful market share gain. This will have a positive impact on HMC's operating profit next year given that along with the US and China, Korea has traditionally been one of the most profitable markets for the company.

Besides the lacklustre demand, the main reason behind HMC's struggle in the domestic market in 1H15 was the rising market share of imported (largely EU-made diesel) cars (16.6% in 1H15 vs. 13.9% in 2014, and 10.0% in 2012). However, as mentioned earlier, the downside to HMC's market share in the domestic market will be limited after 3Q15 as EU carmakers' leftover inventories would have already been depleted.

In addition, as the Volkswagen emissions scandal bites harder, sales of imported cars especially those of German brands will see some negative impact. In the case of Korea, where diesel-powered cars make up a high portion of the imported car segment (c.70% of all imported cars), the impact is expected to be even worse. Looking at the statistics, it is worth noting that imported cars from Germany have been rapidly gained market share in Korea (c.11.5% in 1H15 from c.10% in 2014). And the growth had been fuelled by diesel car line-ups. Hence, the scandal will help both HMC and Kia to regain market share from Korea, at least in the short run.

A jump in (net) income from JVs and associates. Lastly, after six consecutive quarters of y-o-y decline, we expect HMC's (net) income from JVs and associates to grow 8.5% y-o-y to KRW2,168bn in FY16F (expecting a 3% y-o-y increase in [net] income from JVs and associates to 536bn in 4Q15), led by Kia Motor's earnings turnaround and the likely recovery of its China business.

Specifically, the Chinese government has cut the purchase tax on small cars (<1.6L capacity) to 5% from 10%, effective from 1 Oct, and will be applicable until end of 2016. Besides, the government car procurement program will be revised, allowing government agencies to renew their ageing fleets. Sales of passenger vehicles (PV) in China have been weak this year. For 8M15, the PV market grew by only 2.6%, one of the worst periods since the global financial crisis (GFC).

In China, about 70% of total passenger vehicles (PV) sold are those with engine capacities below 1.6L. According to our China auto market analyst, Rachel Miu, the impact on auto sales will be different compared to the first auto stimulus policy in 2009. The reasons are (i) there were no auto sales restrictions in 2009, and (ii) high base effect.

We expect the purchase tax cuts to benefit mostly cities with no auto sales restrictions – namely second- to third-tier cities. Currently, Beijing, Tianjin, Hangzhou, Guangzhou, Shenzhen and Guiyang's governments have imposed auto sales restrictions. In addition, the highest demand from second- and third-tier cities are seemingly for C-segment vehicles where polls have indicated that they are affordable for new buyers and perceived as being well fitted to project a buyer's social status.

We estimate that these cities accounted for 10-15% of total PVs sold in China last year. The 2009/2010 stimulus policy has resulted in a sharp rise in auto sales. Given a high base effect, coupled with auto sales restrictions in certain cities, it is not expected to grow at the same pace compared to 2009/10 (45.5%/32.5%).

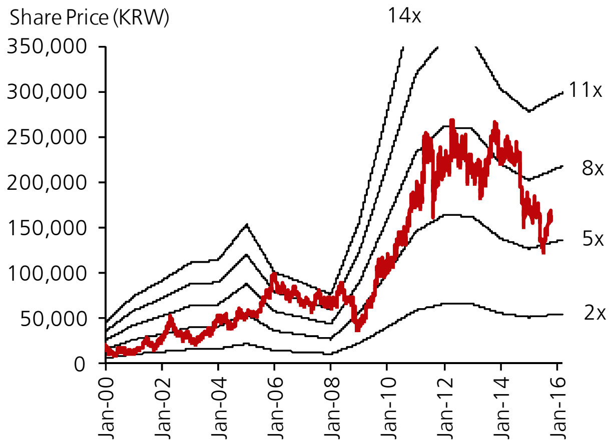
Assuming a 10% rise in volume sales in 4Q, total PV sales could increase by about 5% for 2015. We estimate PV sales to grow by 15% in 2016, when the stimulus policy expires in Dec next year.

Majority of the automakers have exposure to the small car segment. Among the listed players, this segment account for 30-80% of total unit sales, based on sales statistics from the China Association of Auto Manufacturers.

On a positive note, among all sino-foreign JV auto companies in China, Beijing HMC ranks fifth, in terms of sales exposure to the small passenger car segment. In fact, small cars make up more than two-thirds of its car sales in China. In addition, HMC has traditionally focused on the second- to third-tier cities in China. Given this, the likely demand shift to smaller cities, which was recently triggered by the government's new measures, will help Beijing HMC to revive its sales momentum until 2016.

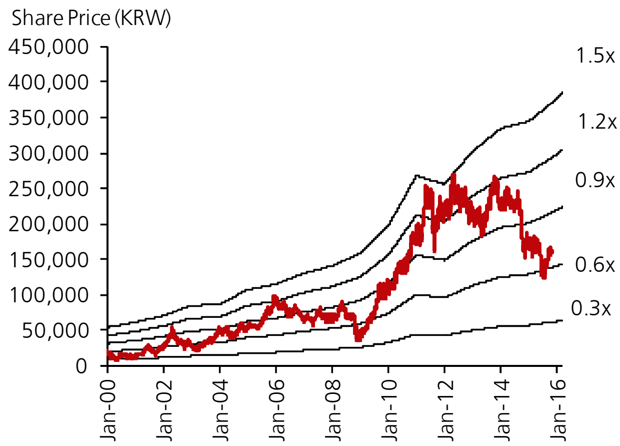
In all, we expect HMC's (net) income from JVs and associates to reach KRW536bn (+3% y-o-y vs. -31% in 3Q15) and KRW2,168 bn (+8.5% y-o-y from our FY15 forecast) in 4Q15 and 2016 respectively.

5. PE band chart



Source: Thomson Reuters, DBS Vickers

6. PB band chart



Source: Thomson Reuters, DBS Vickers

7. HMC : Earnings profile

Global shipment	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15A	3Q15P	4Q15E	2015E
Volume (000)	1,227	1,268	1,129	1,338	4,963	1,183	1,233	1,122	1,331	4,869
Korea	473	500	388	519	1,880	441	498	410	510	1,860
US	97	98	104	97	396	89	91	102	94	375
China*	284	269	259	308	1,120	280	230	214	312	1,036
India	144	152	148	170	613	142	157	162	175	635
Turkey	41	56	50	56	203	54	60	49	53	215
Chez	78	81	74	75	308	80	87	81	74	322
Russia	58	59	56	65	237	51	59	54	61	225
Brazil	43	45	45	46	179	43	43	41	43	170
Sichuan HMC*	10	8	7	3	27	4	8	7	7	27
(KRW bn)										
Revenue	21,649	22,753	21,280	23,574	89,256	20,943	22,822	23,430	25,683	92,877
Automotive	17,719	18,473	17,142	18,973	72,308	16,535	17,823	18,286	20,544	73,188
Sales volume (000)**	933	992	863	1,027	3,816	899	995	900	1,012	3,806
Blended ASP (KRW m)	19.0	18.6	19.9	18.5	18.9	18.4	17.9	20.3	20.3	19.2
Financials	2,607	2,783	2,567	2,814	10,770	2,885	3,197	3,369	3,200	12,651
Others	1,323	1,497	1,571	1,787	6,178	1,523	1,802	1,774	1,940	7,039
Gross profit	4,778	4,842	4,520	4,990	19,130	4,332	4,642	4,565	5,321	18,860
GPM	22.1%	21.3%	21.2%	21.3%	21.4%	20.7%	20.3%	19.5%	20.7%	20.3%
Operating profit	1,938	2,087	1,649	1,876	7,550	1,588	1,751	1,504	1,957	6,800
OPM	9.0%	9.2%	7.7%	8.0%	8.5%	7.6%	7.7%	6.4%	7.6%	7.3%
Non operating income	755	839	553	254	2,401	733	619	201	277	1,830
Pretax profit	2,693	2,926	2,202	2,130	9,951	2,321	2,370	1,705	2,234	8,630
Net profit (ex. minority)	1,929	2,245	1,516	1,657	7,347	1,909	1,703	1,174	1,738	6,524
NPM	8.9%	9.9%	7.1%	7.0%	8.2%	9.1%	7.5%	5.0%	6.8%	7.0%
chg. y-o-y	-0.9%	-6.5%	-29.1%	-19.4%	-14.0%	-1.0%	-24.1%	-22.5%	4.9%	-11.2%

**Refers to HMC's JV businesses **Excluding car sales of HMC's JV businesses*

P: Preliminary reported numbers

Source: Company, DBS Vickers

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
KRW : US$	1,095	1,055	1,143	1,245	1,240
Total number of car sales	4,687,066	4,963,456	4,865,002	5,000,314	4,994,286
Car ASP (m)	16.2	15.8	16.3	16.6	17.0

Sensitivity Analysis

	2015
KRW/US$ +/- 1%	OP +/- 1.4%
KRW/EUR rate +/- 1%	Net Profit +/- 0.5%

Segmental Breakdown (KRW bn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (KRW bn)					
Auto	71,535	72,308	73,187	76,745	78,483
Financing	9,892	10,770	12,651	13,916	14,473
Others	5,880	6,178	7,039	7,321	7,613
Total	87,308	89,256	92,877	97,982	100,569
Operating profit (KRW bn)					
Auto	6,413	5,806	5,035	5,542	5,924
Financing	1,120	1,061	1,026	1,126	1,174
Others	782	683	739	732	761
Total	8,315	7,550	6,800	7,420	7,859
Operating profit Margins (%)					
Auto	9.0	8.0	6.9	7.2	7.5
Financing	11.3	9.9	8.1	8.1	8.1
Others	13.3	11.1	10.5	10.0	10.0
Total	9.5	8.5	7.3	7.6	7.8

Source: Company, DBS Vickers

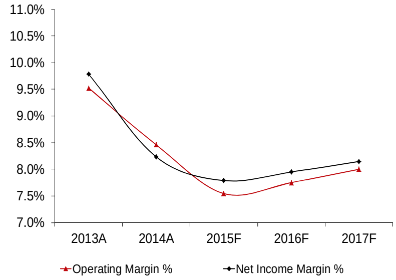
Operation margins for financing operations will continue to be pressured

Income Statement (KRW bn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	87,308	89,256	92,877	97,982	100,569
Cost of Goods Sold	(67,859)	(70,126)	(74,017)	(77,678)	(79,535)
Gross Profit	19,448	19,130	18,860	20,304	21,034
Other Opg (Exp)/Inc	(11,133)	(11,580)	(12,060)	(12,885)	(13,175)
Operating Profit	8,315	7,550	6,800	7,420	7,859
Other Non Opg (Exp)/Inc	380	(168)	0	0	0
Associates & JV Inc	2,749	2,403	1,998	2,168	2,222
Financial (Exp)/Inc	253	166	(171)	305	644
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	11,697	9,951	8,630	9,895	10,728
Tax	(2,703)	(2,302)	(1,835)	(2,177)	(2,360)
Minority Interest	(452)	(303)	(271)	(309)	(335)
Preference Dividend	0	0	0	0	0
Net Profit	8,542	7,347	6,524	7,409	8,033
Net Profit before Except.	8,542	7,347	6,524	7,409	8,033
EBITDA	10,867	10,100	9,427	9,993	10,382
Growth					
Revenue Gth (%)	3.4	2.2	4.1	5.5	2.6
EBITDA Gth (%)	(0.9)	(7.1)	(6.7)	6.0	3.9
Opg Profit Gth (%)	(1.4)	(9.2)	(9.9)	9.1	5.9
Net Profit Gth (%)	(0.2)	(14.9)	(11.2)	13.6	8.4
Margins & Ratio					
Gross Margins (%)	22.3	21.4	20.3	20.7	20.9
Opg Profit Margin (%)	9.5	8.5	7.3	7.6	7.8
Net Profit Margin (%)	9.8	8.2	7.0	7.6	8.0
ROAE (%)	16.3	12.3	10.0	10.7	10.7
ROA (%)	6.7	5.2	4.3	4.6	4.7
ROCE (%)	9.0	6.9	5.6	6.0	6.0
Div Payout Ratio (%)	7.4	8.0	14.6	14.6	14.6
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Vickers

Margins Trend



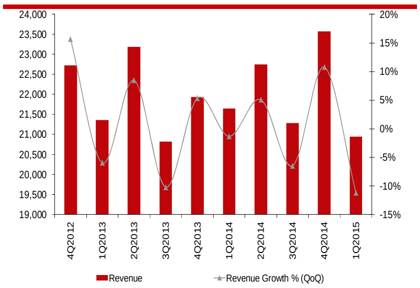
We expect HMC's NP to resume growth from 2016

Quarterly Income Statement (KRW bn)

FY Dec	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015
Revenue	21,280	23,574	20,943	22,822	23,430
Cost of Goods Sold	(16,760)	(18,584)	(16,611)	(18,179)	(18,865)
Gross Profit	4,520	4,990	4,332	4,642	4,565
Other Oper. (Exp)/Inc	(2,872)	(3,114)	(2,744)	(2,891)	(3,061)
Operating Profit	1,649	1,876	1,588	1,751	1,504
Other Non Opg (Exp)/Inc	(87)	(332)	39	67	(241)
Associates & JV Inc	528	498	616	478	368
Net Interest (Exp)/Inc	112	88	78	74	74
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,202	2,130	2,321	2,370	1,705
Tax	(587)	(473)	(338)	(579)	(499)
Minority Interest	(99)	1	(74)	(88)	(32)
Net Profit	1,516	1,657	1,909	1,703	1,174
Net profit bef Except.	1,516	1,657	1,909	1,703	1,174
EBITDA	2,274	2,501	2,248	2,428	2,203
Growth (QoQ)					
Revenue Gth (%)	(6.5)	10.8	(11.2)	9.0	2,7
EBITDA Gth (%)	(16.6)	10.0	(10.1)	8.0	(9.3)
Opg Profit Gth (%)	(21.0)	13.8	(15.3)	(10.3)	(14.1)
Net Profit Gth (%)	(32.5)	9.3	15.2	(10.8)	(31.0)
Growth (YoY)					
Revenue Gth (%)	2.2	7.5	(3.3)	(0.3)	10.1
EBITDA Gth (%)	(14.2)	(5.9)	(13.5)	(10.9)	(3.1)
Opg Profit Gth (%)	(18.0)	(7.6)	(18.1)	(16.1)	(8.8)
Net Profit Gth (%)	(29.1)	(19.4)	(1.0)	(24.1)	(22.5)
Margins					
Gross Margins (%)	21.2	21.2	20.7	20.3	19.5
Opg Profit Margins	7.7	8.0	7.6	7.7	6.4
Net Profit Margins (%)	7.1	7.0	9.1	7.5	5.0

Source: Company, DBS Vickers

Revenue Trend

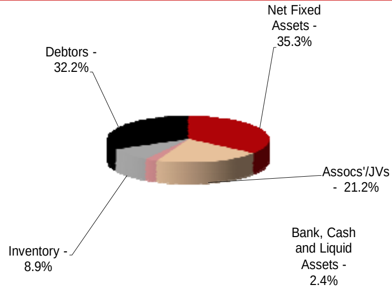


Balance Sheet (KRW bn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Total Fixed Assets	74,565	82,199	92,357	91,751	100,181
Invts in Associates & JVs	14,695	16,157	17,498	18,723	20,034
Other LT Assets	59,870	66,042	74,859	73,027	80,777
Cash & ST Invts	6,872	7,097	1,773	3,190	5,110
Inventory	7,073	7,417	7,909	8,725	9,370
Debtors	24,664	26,249	29,999	32,673	33,838
Other Current Assets	20,247	24,263	25,351	26,515	28,392
Total Assets	133,421	147,225	157,390	162,855	176,891
ST Debt	5,293	6,846	7,188	7,548	7,925
Creditors	6,723	7,042	6,895	7,023	6,755
Other Current Liab	19,904	21,292	21,532	21,823	22,164
LT Debt	33,989	37,733	44,260	45,588	46,956
Other LT Liabilities	10,930	11,692	9,691	10,250	14,101
Shareholder's Equity	51,931	57,655	62,624	65,160	73,248
Minority Interests	4,652	4,966	5,199	5,464	5,743
Total Cap. & Liab.	133,421	147,225	157,390	162,855	176,891
Non-Cash Wkg.	10,482	25,593	26,852	28,573	30,502
Net Cash/(Debt)	(13,217)	(12,421)	(578)	(811)	(958)
Debtors Turn (avg)	15.0	14.8	14.5	14.2	14.0
Creditors Turn (avg)	36.5	35.8	34.0	33.0	31.0
Inventory Turn (avg)	37.2	37.7	39.0	41.0	43.0
Asset Turnover (x)	0.7	0.6	0.6	0.6	0.6
Current Ratio (x)	1.8	1.8	1.8	2.0	2.1
Quick Ratio (x)	1.6	1.6	1.6	1.7	1.8
Net Debt/Equity (X)	0.6	0.7	0.8	0.8	0.7
Capex to Debt (%)	8.1	7.5	15.2	6.4	6.2
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, DBS Vickers

Asset Breakdown



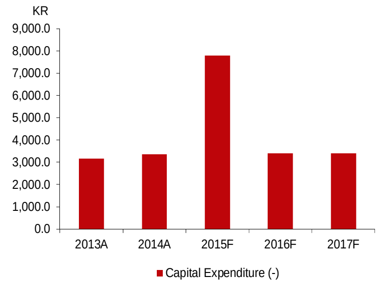
Net gearing worsens due to the group's land purchase

Cash Flow Statement (KRW bn)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	11,697	9,951	8,630	9,895	10,728
Dep. & Amort.	2,551	2,550	2,626	2,574	2,522
Tax Paid	(2,703)	(2,302)	(1,835)	(2,177)	(2,360)
Assoc. & JV Inc/(loss)	(2,749)	(2,403)	(1,998)	(2,168)	(2,222)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(13,217)	(12,421)	(578)	(811)	(958)
Other Operating CF	5,629	6,746	0	2,000	2,240
Net Operating CF	1,208	2,121	6,846	9,313	9,950
Capital Exp.(net)	(3,171)	(3,355)	(7,800)	(3,400)	(3,400)
Invts in Assoc. & JV	(1,577)	(1,462)	(1,341)	(1,225)	(1,311)
Other Investing CF	(1,872)	(1,378)	(8,300)	(3,507)	(3,537)
Net Investing CF	(6,621)	(6,195)	(17,441)	(8,131)	(8,248)
Div Paid	(633)	(587)	(951)	(1,081)	(1,172)
Chg in Gross Debt	3,476	3,744	6,528	1,328	1,368
Capital Issues	0	0	0	0	0
Other Financing CF	2,872	1,550	(305)	(12)	21
Net Financing CF	5,715	4,707	5,272	235	217
Currency Adjustments	(190)	(409)	0	0	0
Chg in Cash	113	224	(5,323)	1,417	1,919
Opg CFPS (KRW)	4,233	7,429	23,981	32,624	34,855
Free CFPS (KRW)	15,341	19,180	51,304	44,533	46,765

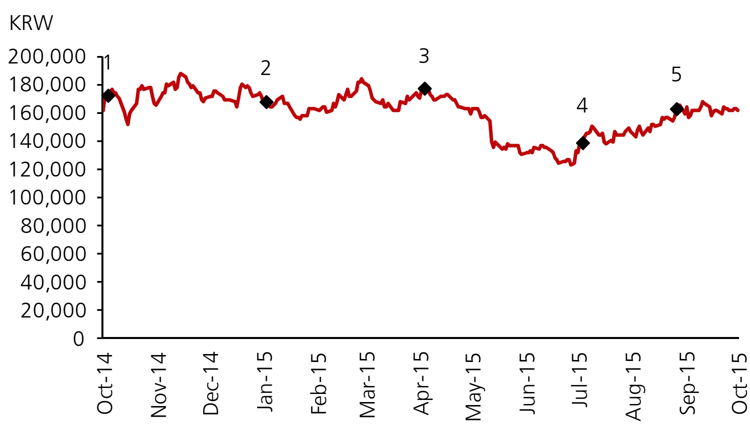
Source: Company, DBS Vickers

Capital Expenditure



Manages to register annual free cash flow of over c.KRW5tn

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	24-Oct-14	KRW171,000	KRW235,000	Buy
2:	23-Jan-15	KRW168,000	KRW226,000	Buy
3:	24-Apr-15	KRW175,500	KRW213,000	Buy
4:	24-Jul-15	KRW138,000	KRW200,000	Buy
5:	16-Sep-15	KRW156,500	KRW200,000	Buy

Source: DBS Vickers

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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